Nova Scotia Business
Development Corporation

Annual Report

2000

Assisting business in the creation, maintenance, and enhancement of employment opportunities for Nova Scotians

Economic Development

The Honourable Myra Freeman

Lieutenant-Governor

Province of Nova Scotia

May It Please Your Honour,

The undersigned has the privilege to present to Your Honour the annual report of the Nova Scotia Business Development Corporation for the year ended March 31, 2000.

Respectfully submitted,

Gordon Balser

Minister

Economic Development

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101-02559/

Letter From the Chairman

The Honourable Gordon Balser

Minister, Economic Development

Province of Nova Scotia

Halifax, Nova Scotia

Dear Mr. Minister:

I am pleased to present, on behalf of the Board of Directors, the Annual Report of the Nova Scotia Business Development Corporation (NSBDC), including the March 31, 2000 audited financial statements of the Nova Scotia Business Development Corporation Fund. Also included in the report are the audited financial statements of the Industrial Expansion Fund, which Executive Council has assigned to NSBDC for administration.

During the fiscal year ended March 31, 2000, the Nova Scotia Business Development Corporation authorized financial assistance of $10.2 million to 35 business enterprises. This assistance was provided to companies throughout Nova Scotia and resulted in the creation, maintenance, and enhancement of employment opportunities for Nova Scotians. The businesses assisted by our support have annual payrolls of $20 million and sales of $112 million.

The NSBDC ensures that companies throughout Nova Scotia have access to capital funding for start-up or expansion.

The NSBDC ensures that companies throughout Nova Scotia have access to capital funding for start-up or expansion. Companies supported by financial assistance from NSBDC have a significant economic impact. The operations of these businesses contribute over $50 million annually in tax revenue to the province.

I take this opportunity to express my thanks to the directors, officers, and staff for their support during the past year. We have endeavoured, as a board, to fulfil the mandate entrusted to us. We believe that the financial assistance authorized by the NSBDC during the current year will have a positive impact on the economic future of Nova Scotia.

Respectfully submitted,

John Risley, Chair

Business Offices

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Halifax, Nova Scotia
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338 Charlotte Street
Sydney, B1P 5Y9
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Fax: 563-0500

Northeastern
35 Commercial St.,
Suite 101
Truro, B2N 3H9
Tel: 893-6150
Fax: 893-6108

Board of Directors and Officers

Board of Directors

John Risley, Chair
Leonard Sarsfield
Michael Black
Kenneth Anderson
Barry Bartlett
Myra Jerome
Yvonne Thyssen-Post
James Snell

Officers

Roy Sherwood
President and Chief Executive Officer

Marvyn Robar
Director, Finance, Investment and Regional Lending

Andrew Hare
Director, Lending and Special Projects

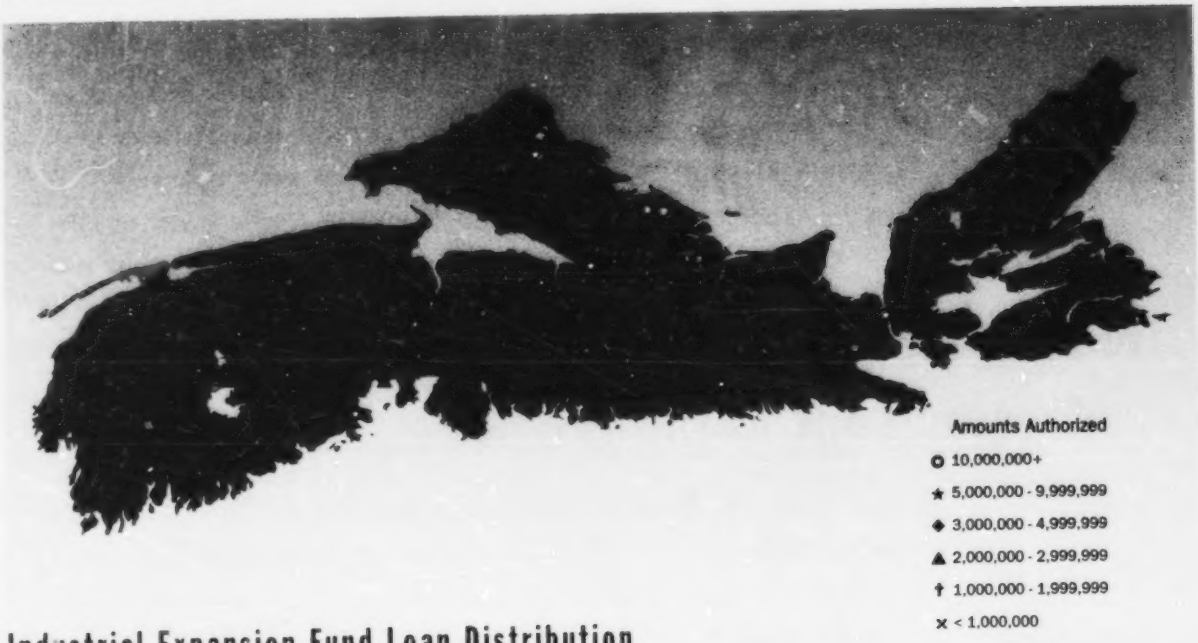
Introduction

The Nova Scotia Business Development Corporation (NSBDC) was established pursuant to the Business Development Corporation Act, which was passed and proclaimed effective April 1, 1988. The corporate authority granted to the Corporation is expressed as follows: There is hereby established a body corporate to be known as the Nova Scotia Business Development Corporation. The Corporation shall be managed by a Board of Directors composed of such members as are appointed by the Governor in Council... The object and purpose of the Corporation is to encourage business development in the Province including, without limiting the generality of the foregoing, a tourism or tourism-related business, and thereby promote business growth and employment opportunities by rendering to business financial assistance or such other assistance as may be determined by the Governor in Council.

...to encourage business development in the Province...

The Corporation, through its Board of Directors, is responsible for the Nova Scotia Business Development Corporation Fund. In addition, Executive Council has directed the Nova Scotia Business Development Corporation to administer financial assistance proved under the Industrial Development Act (Industrial Expansion Fund) and the Venture Corporations Act. The Nova Scotia Business Development Corporation reports to the Legislature through: The Honourable Gordon Balser, Minister of Economic Development
Responsible for the Nova Scotia Business Development Corporation

Nova Scotia Business Development Corporation Loan Distribution



Industrial Expansion Fund Loan Distribution

Management Discussion and Analysis

Overview of Portfolio

Loans, shares, and guarantees, excluding the Community Business Loan Program

The Nova Scotia Business Development Corporation administers a diverse portfolio of accounts that includes loans, shares, and guarantees provided to business to encourage economic development and to create and enhance employment opportunities in Nova Scotia. The Corporation also owns and manages a number of industrial parks and malls.

As at March 31, 2000, the portfolio consisted of over 250 accounts aggregating $180 million, plus $11 million in guarantees. These guarantees have been provided to chartered banks to support the credit facilities of 15 companies.

A listing of the Corporation's clients is provided in Appendix 1.

...administers a diverse portfolio of accounts... provided to business to encourage economic development

Financial assistance has been provided to businesses located throughout Nova Scotia. Chart 1 shows the dollar value of financial assistance authorized and/or committed, by county. Graph 1 illustrates the distribution of financial assistance on a map of Nova Scotia.

The Halifax metropolitan area accounts for approximately 10 per cent of the assistance outstanding. Traditionally, businesses outside of metropolitan areas, start-up situations, and those utilizing specialized manufacturing equipment have had difficulty accessing commercial financing due to higher risks and lack of liquidity of the underlying security. The Nova Scotia Business Development Corporation fills this gap in the continuum of financing options available to business. The Corporation ensures that all businesses throughout the province have equal access to capital for expansion and start-up, regardless of location. The primary focus of lending activity is directed to manufacturers and processors. Economic development efforts have traditionally targeted manufacturing companies. These companies pay above-average wages and create considerable spin-off employment. In addition, the tourism sector is a focus of our activity, as tourism generates significant employment in rural areas.

An overview of our assistance, by sector, is provided in Chart 2. Food processors account for the largest component of financial assistance provided, with 34 per cent of total assistance. These firms are involved in producing value-added products by processing fish, meat, poultry, vegetables, and fruits. All are located in rural Nova Scotia.

The businesses that the Corporation has assisted in establishing and expanding in Nova Scotia have

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a significant impact on the economy. These companies employ over 10,000 Nova Scotians throughout the province and have annual payrolls of $220 million. In many cases, these companies are the major employer in a community and are the source of that community's prosperity.

The businesses assisted generate over $1.3 billion a year in sales, of which 70 per cent is export sales. In addition to directly employing 10,000 Nova Scotians in smaller communities throughout Nova Scotia, these businesses support an additional 12,000 jobs through spin-off employment. The province benefits significantly from the Corporation's funding of these businesses. Based on the wages earned by these 22,000 Nova Scotians, it is estimated that the province will receive an additional $45 million every year in direct income taxes, which would not be available were it not for the operations of these companies.

The Corporation does not present a statement of earnings, as all revenues received are credited to the Department of Finance and all operating expenses are charged to the Department of Economic Development. However, a pro-forma statement of "economic impact" can be created based on the results of the Corporation's lending activity. The following pro-forma statement of economic impact has been derived, based on an analysis of 50 of the Corporation's major clients.

NSBDC Pro-Forma Statement of Economic Impact

Revenue	
Estimated direct and indirect tax revenue from earned household income	**$45,000,000**
Interest income	9,000,000
	54,000,000
Expenses	
Interest income paid on loan portfolio @7%	**[illegible]**
Operating costs	**1,600,000**
Average annual write-off	**4,600,000**
	20,200,000
Incremental tax revenue to Province of Nova Scotia	$33,800,000

The pro-forma statement of economic impact indicates that the province earns approximately a net $34 million annually as a result of the operations of the largest 50 companies that the Corporation has helped to establish and expand. The impact of the remaining 200 active accounts in the portfolio are not included in this pro-forma statement and would increase all results. The pro-forma income statement is considered to be conservative in nature. It should be noted that the tax revenue associated with the construction of capital assets for these companies is not included in the above assessment nor does it include the tax revenue from 1,000 companies that the Corporation and predecessor agencies have assisted in the past and whose loans have been repaid.

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Concessionary assistance and allowance for doubtful accounts

The Business Development Corporation has provided financing on concessionary terms to certain clients as a component of financial restructuring or as incentives for investment. These financial arrangements were put in place to assist clients experiencing financial difficulties to restructure their debt while allowing them to maintain operations and continue to employ Nova Scotians. Concessionary terms may involve extended repayment terms, reduced interest rates, and financing structured as income bonds or preferred shares.

...to assist clients experiencing financial difficulties to restructure their debt while allowing them to maintain operations and continue to employ Nova Scotians.

Provision for concessionary assistance remained stable, but the allowance for doubtful accounts was decreased by $6 million due equally to earned forgiveness on one loan account and the full repayment of a concessionary loan by another client.

Assistance authorized but unadvanced

When financial assistance is authorized by the Corporation, it is immediately recognized as a commitment of the fund. As a large percentage of the financial assistance authorized relates to the construction of capital assets, there can often be a considerable period of time from the date of authorization to the date of disbursement as the project begins and assets are constructed. Consequently, there are always outstanding amounts for which the fund is potentially committed. As at March 31, 2000, $27 million in financial assistance has been authorized by the Corporation but has yet to be drawn down by clients.

Industrial parks and other assets

The Business Development Corporation administers 17 industrial parks having a net value of $24 million. These parks consist of land in various stages of development, from undeveloped to fully developed and serviced lots. Approximately 5,500 acres (2225 ha) of land is under administration. The parks also include buildings, eight of which are used as incubator malls.

Chart 1

NSBDC Assistance Authorized by County

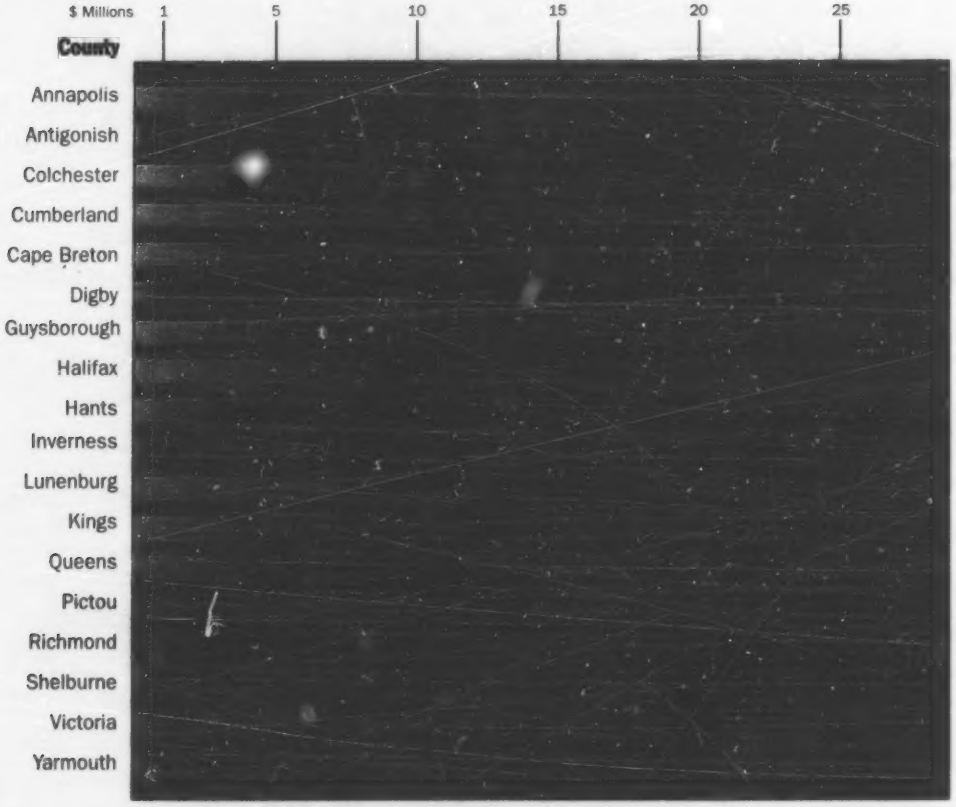
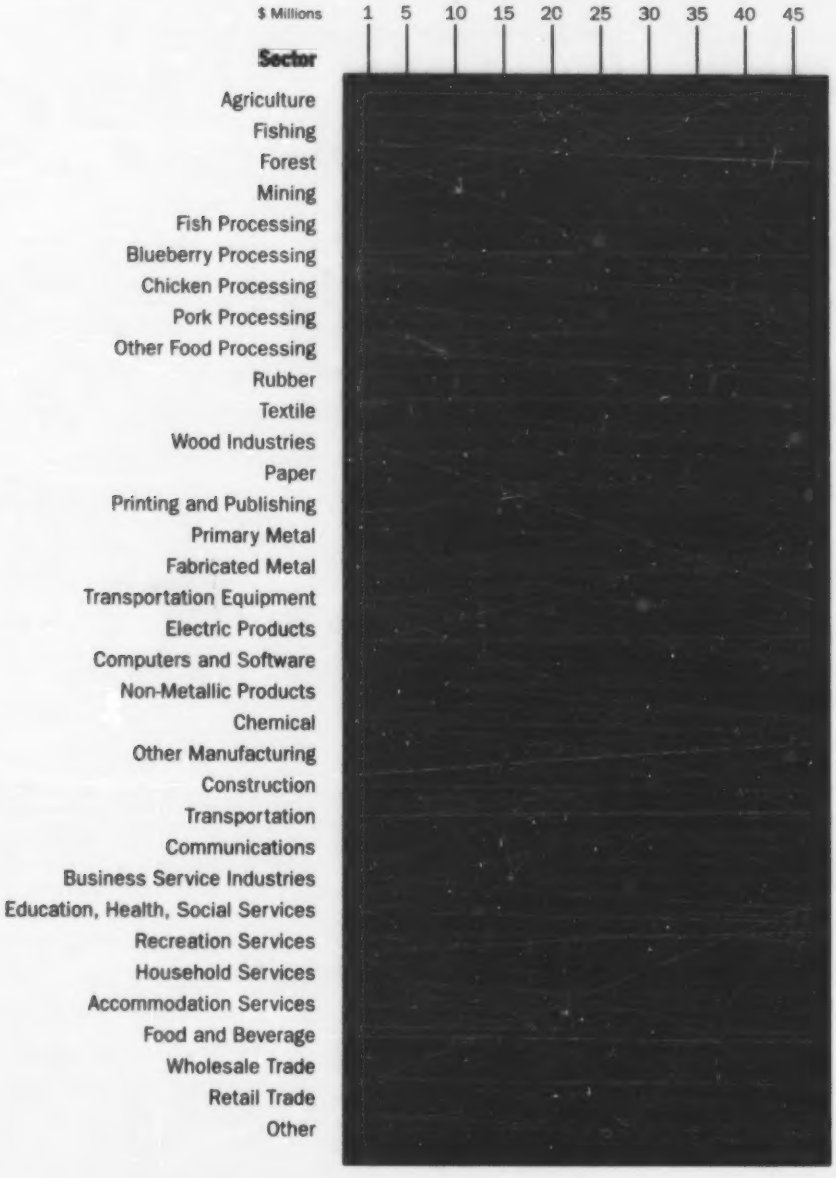


Chart 2

NSBDC Sectoral Analysis



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1999–2000 Lending Activity

During the year the Corporation approved 35 authorizations for loans, guarantees, and shares, totalling $10.2 million. It is estimated that this financial assistance contributed to the enhancement, creation, and maintenance of direct employment opportunities for 1,400 Nova Scotians. The companies that have been assisted pay $20 million annually in wages and have sales of $112 million. Appendix 2 lists the companies, the amount of assistance authorized, and a general description of the use of funds. Financial assistance was provided primarily in the form of loans for fixed-asset acquisitions and for share subscriptions (Table 1).

During the year the Corporation approved 35 authorizations for loans, guarantees, and shares, totalling $10.2 million.

Table 2 provides information on the sectors to which financial assistance was provided, together with the estimated employment associated with the assistance. As in past years, financial assistance was directed primarily at the manufacturing sector, with a significant amount of assistance provided for the food-processing sector and the wood, plastic, and fabric manufacturing industries. Table 3 provides details on the geographic distribution of authorizations.

Table 1

Purpose of 1999-2000 Authorizations

Purpose of Authorizations	Number	Amount
TOTAL	35	$10,198,835

Accounts Written Off

Fifteen accounts totalling $8,827,000 were written off during the current fiscal year. The major components of this amount are $3 million in respect of Crossley Carpets relating to loan forgiveness based on employment targets, $2.3 for MM Manufacturing on the conclusion of the receivership, and $1 million relating to Mentor Networks, a failed software developer. All amounts had been previously provided for in the financial statements of the Corporation.

Industrial Parks and Properties

Capital projects of $472,000 were undertaken during the year for infrastructure improvements to industrial parks. Sales from industrial land totalled $906,000.

Cash Flow and Revenues

During the current year, $30 million was advanced on authorized financial assistance for loans, and $17.7 million was received in repayments on loans and shares. Interest revenue of $9.2 million was earned from the portfolio during the fiscal year.

Table 2

Financial Assistance by Sector - 2000

Sector	Amount	Percentage	Employment
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	35
[illegible]	738,497	7.21	101
Other	1,540,000	15.10	62
Tourism	1,998,000	19.60	308
Wood, plastics, fabrics	234,500	2.30	107
	$ 10,198,835	100.00%	1,412

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Table 1

Purpose of 1999-2000 Authorizations

Purpose of Authorizations	Number	Amount
[illegible]	32	
Shares	3	280,000
TOTAL	35	$10,198,835

Accounts Written Off

Fifteen accounts totalling $8,327,000 were written off during the current fiscal year. The major components of this amount are $3 million in respect of Crossley Carpets relating to loan forgiveness based on employment targets, $2.3 for MM Manufacturing on the conclusion of the receivership, and $1 million relating to Mentor Networks, a failed software developer. All amounts had been previously provided for in the financial statements of the Corporation.

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Table 2

Financial Assistance by Sector - 2000

Sector	Amount	Percentage	Employment
[illegible]	$ 232,567	2.28	
Food processing	2,703,704	26.51	514
Pharmaceutical	615,802	6.03	20
Textiles	1,163,765	11.41	265
Plastics	975,000	9.56	35
Other manufacturing	735,497	7.21	101
Other	1,540,000	15.10	62
Tourism	1,998,000	19.60	308
Wood, plastics, fabrics	234,500	2.30	107
	$ 10,198,835	100.00%	1,412

Table 3

Authorizations by County

No. of Loans	County	Amount Approved	Employment
3	Annapolis	$ 862,500	262
1	Antigonish	225,000	8
2	Cape Breton	834,954	95
3	Colchester	1,590,802	55
4	Digby	601,000	163
7	Halifax	1,896,064	100
1	Hants	80,000	3
1	Inverness	200,000	12
2	Kings	1,909,750	56
1	Lunenburg	200,000	23
1	Pictou	155,000	5
4	Queens	558,500	377
2	Richmond	460,000	90
3	Yarmouth	625,265	163
35		$ 10,198,835	1,412

Community Business Loan Program

The Community Business Loan Program was established in 1993 to encourage the development of small business throughout the province by providing financial assistance in the form of loans. Program activity has slowed considerably in the last several years compared with the first years of operation. Several new sources of capital aimed at this market have recently emerged resulting in less demand for small loans. The program is currently being evaluated to determine future direction.

Industrial Expansion Fund

There was significant activity during the year in the Industrial Expansion Fund. Six transactions having a value of $10,649,000 were authorized. The assistance was provided by way of $7,649,000 in loans (4) and $3,000,000 in guarantees (2).

The following transactions were authorized by the fund during the current year:

Loans and Guarantees

Client	Amount Authorized	Purpose
Scotia Rainbow	$ 4,000,000	Fixed asset acquisition
TIM Dealer Systems	2,000,000	Guarantee of bank loan
Pony Productions	1,749,000	Television series financing
Nova Scotia Boat Builders Association	1,500,000	Revolving loan fund for the construction of vessels for export
Pier 21 Society	1,000,000	Guarantee of line of credit
Louisbourg Seafoods	400,000	Fixed asset acquisition
	$ 10,649,000	

The financial assistance provided during the current year supports the activities of more than 450 employees.

During the year, $20,482.00 was written off; $19 million of this amount related to loan forgiveness earned by Michelin under development incentive agreements relating to expansion of the company's Nova Scotia facilities. The remaining amount relates primarily to other loan forgiveness earned under incentive agreements.

The financial assistance... supports the activities of more than 7700 employees.

In total, over 7,700 Nova Scotians are employed by companies that have been provided with financial assistance from the Industrial Expansion Fund. The companies generate $2.2 billion annually in sales and pay their employees over $319 million annually in salaries and wages. The activities of these companies result in 10,000 spin-off jobs to the economy. In addition, $65 million in incremental tax revenues are generated annually from the activities of companies for which financing has been provided from the Industrial Expansion Fund.

Table 3

Authorizations by County

No. of Loans	County	Amount Approved	Employment
1	Antigonish	225,000	8
2	Cape Breton	894,954	93
3	Colchester	1,560,802	86
4	Digby	601,000	163
7	Halifax	1,896,064	100
1	Hants	80,000	3
1	Inverness	200,000	12
2	Kings	1,909,750	56
1	Lunenburg	200,000	23
1	Pictou	155,000	5
4	Queens	558,500	377
2	Richmond	460,000	90
3	Yarmouth	625,265	163
35		$ 10,198,835	1,412

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Nova Scotia Boat Builders Association	1,500,000	Revolving loan fund for the construction of vessels for export
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Industrial Expansion Fund

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Nova Scotia Business Development Corporation Fund
Auditor's Report

To the Members of the Legislative Assembly; and

To the Minister of Economic Development

I have audited the balance sheet of the Nova Scotia Business Development Corporation as at March 31, 2000, and the statement of continuity of fund for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000, and the continuity of fund for the year then ended in accordance with the basis of accounting required by Section 15 of the Business Development Corporation Act and the accounting policies detailed in Note 2 to the financial statements.

E. R. Salmon, FCA
Auditor General

Halifax, Nova Scotia
May 5, 2000

Nova Scotia Business Development Corporation Fund
Balance Sheet

March 31	2000	1999 (in thousands)
Assets		
Loans and shares, at cost		
Loans receivable	$ 152,312	$ 145,765
Venture investments	7,030	7,034
Community Business Loan Program	3,920	4,008
Shares (Note 3)	16,461	17,272
	179,723	174,079
Less: Provision for concessionary assistance (Note 4)	18,303	24,402
Allowance for doubtful accounts	25,333	20,271
	43,636	44,673
	136,087	129,406
Industrial parks (Note 5)	23,973	24,408
Other assets	298	1,769
Less: Provision for decline in value	89	263
	209	1,506
Due from consolidated fund		
Guarantees (Note 6)	10,875	12,213
Less: Provision for payment under guarantees	3,434	2,461
	7,441	9,752
Assistance authorized but unadvanced	27,431	42,848
	34,872	52,600
	$ 195,141	$ 207,920
Funding Authorized and Committed		
Authorized, net of write-offs	$ 285,768	$ 294,595
Less: Provision for concessionary assistance and possible losses on assistance (Note 7)	47,159	47,397
Net fund balance	238,609	247,198
Less: Uncommitted balance of fund	43,468	39,278
	$ 195,141	$ 207,920

Contingency (Note 8)

On behalf of the Board

Chairperson

President and C.E.O.

See accompanying notes to the financial statements.

Nova Scotia Business Development Corporation Fund
Statement of Continuity of Fund

March 31	2000	1999 (in thousands)
Balance	$ 294,595	$ 303,802
Deduct: Accounts written off	8,827	9,207
Balance, end of year	$ 285,768	$ 294,595
Comprising:		
Loans receivable, shares and other assets	$ 180,021	$ 175,848
Industrial parks	23,973	24,408
Guarantees in effect and utilized	9,871	10,870
Loans and other investments authorized, but unadvanced and guarantees in effect but not utilized	28,435	44,191
Uncommitted balance	43,468	39,278
	$ 285,768	$ 294,595

See accompanying notes to the financial statements.

1. Authority

The Nova Scotia Business Development Corporation was established pursuant to the Business Development Corporation Act. The Act provided for the creation of the Nova Scotia Business Development Corporation Fund. The object of the Corporation is to encourage business development in the Province by providing financial assistance to business through the Fund, or such other assistance as may be determined by the Governor-in-Council. The Corporation's activities are administered through a division of the Department of Economic Development.

2. Accounting policies

These financial statements have been prepared in accordance with generally accepted accounting principles modified by paragraphs (a), (b), (c), (f) and (g) below.

Administrative Expenses and Interest Revenue

(a) Administrative expenses of the Corporation and revenues earned on guarantees are included in the accounts of the Department of Economic Development and are not reflected in the financial statements of the Fund. Interest and other income earned on loans and shares is included in the accounts of the Department of Finance and are not reflected in these financial statements.

Statement of Cash Flows

(b) A statement of cash flows is not provided since disclosure in the statements of continuity of the fund and the balance sheet are considered adequate.

Current Assets

(c) Payments receivable within one year of the balance sheet date are not segregated and classified as current assets.

Venture Investments

(d) Venture investments represent financial assistance (in the form of loans) to companies in emerging technology sectors and are primarily secured by interests in intellectual property and other assets. Venture investments are initially recorded at cost. These investments continue to be carried at cost unless there exists persuasive evidence of a decrease in value as indicated by the assessment of the financial condition of the investment based on operational results, forecasts and other developments.

Industrial Parks

(e) Industrial parks are carried at cost of acquisition plus direct costs of improvements, net of proceeds of disposal. Selling prices are established using estimated market value. The park lands are reflected on an aggregate basis at the lower of cost or estimated market value.

(f) The buildings in the parks are carried at book value. No depreciation is charged on the buildings.

(g) Operational responsibility for the industrial parks has been assigned to the Department of Transportation and Public Works. Revenues and expenses associated with the operation of the industrial parks are accounted for by the Department of Transportation and Public Works and are not reflected in these financial statements.

Other Assets

(h) Properties acquired through foreclosure are carried at the cost of acquisition and are subject to a provision for write down annually to estimated realizable value.

Concessionary Assistance

(i) The Corporation provides for the effect of the decrease in valuation of certain loans and shares due to assistance being provided with concessionary terms.

Allowance for Doubtful Accounts

(j) The Corporation provides for possible losses on guarantees authorized, loans receivable, shares and other assets on an item-by-item basis except for loans under the Community Business Loan Plan for which a blanket provision is determined based on prior years' loan performance. In addition, a general reserve is provided on any unreserved assistance outstanding.

3. Shares

	2000	1999 (in thousands)
Preferred shares	$ 13,403	$ 13,372
Common shares and equity interests	3,058	3,900
	$ 16,461	$ 17,272

4. Provision for concessionary assistance

Concessionary assistance is the difference between the net present value at year end of the anticipated future repayments to be received by the fund and the amount of assistance advanced to an economic entity on the usual established commercial terms of the Corporation.

The terms of concessionary assistance through the Corporation include low interest rates, extended repayment terms and forgiveness clauses. This assistance is recorded at cost and reduced by the Provision for Concessionary Assistance. Any adjustments to or recovery of the net present value of this assistance in subsequent years is reflected in the Provision for Concessionary Assistance. The assistance outstanding, provision for concessionary assistance and net book value related to each of loans and shares is as follows:

	2000 (in thousands)			1999
	Assistance Outstanding	Provision for Concessionary Assistance	Net Book Value	Net Book Value
Loans	$ 16,615	$ 11,360	$ 5,255	$ 7,895
Shares	12,456	6,943	5,513	5,219
	$ 29,071	$ 18,303	$ 10,768	$ 13,114

Nova Scotia Business Development Corporation Fund
Notes to the Financial Statements (cont'd)

5. Industrial parks

These parks consist of land in various stages of development from unimproved to fully developed and serviced lots. The parks also include buildings which are mainly used as incubator malls.

No provision has been made to reflect on an individual park-by-park basis the difference between the carrying cost and fair market value. As at March 31, 2000 the cost of parks in excess of management's determination of market value totalled $6,792,943 (market value $3,113,000). The cost of parks where market value exceeded cost was $10,625,996 (market value $17,933,000). This results in an estimated net excess of current market value over carrying cost of approximately $3,627,000.

The balance of the cost of industrial parks of $6,554,277 is represented by the book value of the incubator malls, other buildings and property at March 31, 2000.

6. Guarantees

	2000	1999 (in thousands)
Guarantees – in effect and utilized	$ 9,871	$ 10,870
Guarantees – in effect but not utilized	1,004	1,343
	$ 10,875	$ 12,213

During the year, no guarantees were paid out.

7. Provision for concessionary assistance and possible losses on assistance

The following is a continuity of the provision:

	2000	1999 (in thousands)
Balance, beginning of year	$ 47,397	$ 54,755
Add: Current year provision	8,589	1,849
Deduct: Accounts written off	8,827	9,207
Balance, end of year	$ 47,159	$ 47,397

8. Contingencies

(a) Environmental remediation

The Corporation has entered into agreements which provide for the funding of expenditures incurred by third parties in respect of environmental remediation of contaminated sites. An estimate of the amount of future costs under these agreements cannot be reasonably determined and is not reflected in the financial statements.

(b) Litigation

The Corporation is defending two legal actions relating to:

i) a dispute in regard to an agreement of purchase and sale. The amount claimed is $600,000.

ii) the termination of a contract. No specific amount has been claimed.

In both cases counsel is unable to form an opinion at this early date in regard to the merit of these claims and consequently no provision for any possible losses has been recorded in these financial statements.

Industrial Expansion Fund
Auditor's Report

To the Members of the Legislative Assembly; and
To the Minister of Economic Development

I have audited the balance sheet of the Industrial Expansion Fund as at March 31, 2000, and the statements of continuity of fund for the year then ended. These financial statements are the responsibility of the Nova Scotia Business Development Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation

In my opinion, these financial statements present fairly, in all material respects, the financial position of the fund as at March 31, 2000, and the continuity of fund for the year then ended in accordance with the basis of accounting required by Section 8 of the Industrial Development Act and the accounting policies detailed in Note 2 to the financial statements.

E. R. Salmon, FCA
Auditor General

Halifax, Nova Scotia
May 5, 2000

Industrial Expansion Fund
Balance Sheet

March 31	2000	1999 (in thousands)
Assets		
Financial assets, at cost		
Loans – Industrial Development Act	$ 69,689	$ 83,912
Loans – Venture Corporations Act (Note 3)	2,127	2,188
Royalty rights (Note 4)	15,632	9,991
Shares (Note 5)	10,107	8,940
	97,555	105,031
Less: Provision for concessionary assistance (Note 6)	35,588	54,632
Allowance for doubtful accounts	9,680	4,725
	45,268	59,357
	52,287	45,674
Due from Consolidated Fund		
Guarantees (Note 7)	147,150	143,600
Less: Provision for payment under guarantees	3,349	50
	143,801	143,550
Assistance authorized but unadvanced (Note 8)	13,519	54,302
	157,320	197,852
	$ 209,607	$ 243,526
Funding Authorized and Committed		
Authorized, net of write-offs		
Industrial Development Act	$ 311,967	$ 332,449
Venture Corporations Act	5,685	5,685
Contributed Surplus (Note 9)	1,138	1,138
	318,790	339,272
Less: Provision for concessionary assistance and possible losses on assistance (Note 10)	48,617	59,407
Net Fund balance	270,173	279,865
Less: Uncommitted balance of Fund	60,566	36,339
	$ 209,607	$ 243,526

Contingency (Note 11)
On behalf of the Board

President and C.E.O. of the
Nova Scotia Business Development Corporation

See accompanying notes to the financial statements.

Industrial Expansion Fund
Statement of Continuity of Fund under the Industrial Development Act

March 31	2000	1999 (in thousands)
Balance, beginning of year	$ 332,449	$ 276,827
Add: Additional funds authorized	-	80,000
	332,449	356,827
Deduct: Accounts written off	20,482	24,378
Balance, end of year	$ 311,967	$ 332,449
Comprising:		
Loans, shares, rights and other assets	$ 94,360	$ 101,775
Guarantees in effect and utilized (Note 7)	40,767	15,700
Loans and other investments authorized, but unadvanced, and guarantees in effect but not utilized	119,902	182,202
Uncommitted balance	56,938	32,772
	$ 311,967	$ 332,449

See accompanying notes to the financial statements.

Industrial Expansion Fund
Statement of Continuity of Fund under the Venture Corporations Act

March 31	2000	1999 (in thousands)
Balance, beginning of year	$ 5,685	$ 5,685
Deduct:Accounts written off	-	-
Balance, end of year	$ 5,685	$ 5,685
Comprising:		
Loans advanced	$ 2,127	$ 2,188
Uncommitted balance	3,558	3,497
	$ 5,685	$ 5,685

See accompanying notes to the financial statements.

Industrial Expansion Fund
Statement of Continuity of Fund Under the Terms of the Canada-Nova Scotia Development Fund Agreement

March 31	2000	1999 (in thousands)
Balance, beginning of year	$ 1,138	$ 1,984
Deduct: disposal of acquired assets	-	846
Balance, end of year	$ 1,138	$ 1,138
Comprising:		
Loans advanced	1,068	1,068
Uncommitted balance	70	70
	$ 1,138	$ 1,138

See accompanying notes to the financial statements.

Industrial Expansion Fund
Notes to the Financial Statements

1. Authority

The Industrial Expansion Fund was established under the Industrial Development Act. The Fund is used for the purposes of establishing, assisting, developing or expanding industries in the Province.

The Business Development Corporation Act provides that the Industrial Expansion Fund may be administered by the Nova Scotia Business Development Corporation. A ministerial letter of assignment was issued authorizing the Corporation to administer the Industrial Expansion Fund as it related to the accounts sent to the Corporation for administration from time to time. The Corporation's activities are administered through a division of the Nova Scotia Department of Economic Development.

2. Accounting policies

These financial statements have been prepared in accordance with generally accepted accounting principles modified by paragraphs (a), (b) and (c) below. Paragraphs (d), (e) and (f) describe significant accounting policies of the Fund.

Administrative expenses and interest revenue

(a) Administrative expenses of the Fund, and revenues earned on guarantees are included in the accounts of the Department of Economic Development and are not reflected in the financial statements. In addition, accrued loan interest is not recognized as a receivable in the financial statements of the Fund. Interest and other income earned on loans and shares is included in the accounts of the Department of Finance and are not reflected in these financial statements.

Statement of cash flows

(b) A statement of cash flows is not provided since disclosure in the statements of continuity of the fund and the balance sheet are considered adequate.

Current assets

(c) Payments receivable within one year of the balance sheet date are not segregated and classified as current assets.

Provision for concessionary assistance

(d) The Fund provides for the effect of the decrease in the valuation of certain loans and shares due to assistance being provided with concessionary terms.

Allowance for doubtful accounts

(e) The Fund provides for possible losses on guarantees authorized, loans receivable, shares and other assets on an item-by-item basis.

Royalty rights

(f) Royalty rights are valued at cost. The value of these rights is assessed annually by estimating the net present value of anticipated cash flows. If the carrying value of the right exceeds the net present value of future cash flows, the right is written down to the net present value.

Industrial Expansion Fund
Notes to the Financial Statements (cont'd)

3. Venture Corporations Act

The Venture Corporations Act was assented to June 5, 1980 and came into force January 28, 1981. The Act was enacted to provide a means of encouraging investment in small businesses in Nova Scotia.

A company that qualifies as a venture corporation may receive loans under this Act. Loan proceeds must be used to purchase shares or grant unsecured loans to eligible small businesses. Principal repayments and accrual of interest are not required to commence until the tenth anniversary of such loans.

The Act directs that money provided shall be financial assistance within the meaning of the Industrial Development Act, and payments made pursuant to the Act shall be made out of the Industrial Expansion fund.

During the year $61,500 (1999 – Nil) was received.

	2000	1999 (in thousands)
Loans made to venture corporations	$ 2,127	$ 2,188
Less: Allowance for doubtful accounts	1,671	1,566
	$ 456	$ 622

4. Royalty rights

During the year, the Fund provided funds ($5,641,000; 1999–$4,545,000) to companies under royalty agreements to provide a return on its investment. The royalty payments are based upon net sales of the companies.

5. Shares

	2000	1999 (in thousands)
Preferred shares	$ 7,384	$ 7,384
Common shares	2,723	1,556
	$ 10,107	$ 8,940

Industrial Expansion Fund
Notes to the Financial Statements (cont'd)

6. Provision for concessionary assistance

Concessionary assistance is the difference between the net present value at year end of the anticipated future repayments to be received by the Fund and the amount of assistance advanced to an economic entity on the usual established commercial terms of the Fund.

The terms of concessionary assistance provided by the Fund has included low interest rates, extended repayment terms and forgiveness clauses. This assistance is recorded at cost and reduced by the Provision for Concessionary Assistance. Any adjustments to or recovery of the net present value of this assistance in subsequent years is reflected in the Provision for Concessionary Assistance.

The assistance outstanding, provision of concessionary assistance and net book value related to loans and shares are as follows:

	2000			1999
			(in thousands)	
	Assistance Outstanding	**Provision for Concessionary Assistance**	**Net Book Value**	Net Book Value
Loans	**$ 51,718**	**$ 32,993**	**$ 18,725**	$ 6,489
Shares	**3,884**	**2,595**	**1,289**	2,964
	$ 55,602	**$ 35,588**	**$ 20,014**	$ 9,453

7. Guarantees

Guarantees have been provided for the following purposes:

	2000	1999 (in thousands)
Authorized		
Bank loan guarantees	**$ 147,150**	$ 143,600
In effect and utilized		
Bank loan guarantees	**$ 40,767**	$ 15,700
In effect but not utilized	**106,383**	127,900
	$ 147,150	$ 143,600

8. Assistance authorized but unadvanced

	2000	1999 (in thousands)
Loans	**$ 12,352**	$ 51,968
Shares	**1,167**	2,334
	$ 13,519	$ 54,302

Industrial Expansion Fund
Notes to the Financial Statements (cont'd)

9. Contributed surplus

Contributed surplus represents the balance of funds provided to the Industrial Expansion Fund for the purpose of providing assistance in accordance with the terms of the Canada–Nova Scotia Development Fund Agreement. Loans granted under this agreement require Federal Government approval before they can be written-off or forgiven. The Province has asked for permission to write-off the loans, as of the auditors' report date there has been no response from the Federal Government.

10. Provision for concessionary assistance and possible losses on assistance

The following is a continuity of the provision:

	2000	1999 (in thousands)
Balance, beginning of year	$ 59,407	$ 71,904
Add: Current year provision	9,692	14,341
Deduct: Accounts written-off	20,482	24,378
Change in accounting estimate (Note 12)	-	2,460
Balance, end of year	$ 48,617	$ 59,407

11. Contingency

The Fund has entered into agreements which provide for the funding of expenditures incurred by third parties in respect of environmental remediation of contaminated sites. Estimates of the amount of future costs, if any, under these agreements cannot be made with any certainty and are not reflected in the financial statements.

12. Change in accounting estimate

During the prior year, the Fund changed its method of calculating the allowance for doubtful accounts. Due to the limited number of authorized accounts, it is appropriate to determine reserves on an item-by-item basis. Management feels a general reserve over this amount is not required. This change in accounting estimate is being accounted for prospectively.

Appendix 1

Nova Scotia Business Development Corporation Client List

As at March 31, 2000

2336896 Nova Scotia
3-D Auto Parts
A & L Seafoods
ACA Co-Operative
ACS Trading Inc.
Advanced Materials
Adventus Inc.
Aftermath Television
Agricultural Enterprises
Amherst Aerospace Components
Amherst Bowl-O-Rama
Annapolis Basin Seafoods
Antigonish Kitchen
Apple Valley Foods
ArgoKings Canada
Ariel Geomatics Inc
Atkinson & Bower
Atlantech Extrusion
Atlantic Beach Resort
Atlantic BioChemical
Atlantic By-Catch
Atlantic Confections
Atlantic Low Temperature Systems
Atlantic Marine Pavilion
Atlantic Pearl Seafood
Aurora Inn Ltd.
Avon Spirit Incorporated
A. F. Theriault & Sons
A.F.T. Sawmill
Baddeck Small Engine
Barry E. Bartlett
Bartlett Plastics
BDI: Business Development
Bebbington Chemicals
Beinn Bhreagh Houseboats
Bell Bay Golf Developments
Blue Mist Pewter
Blue Wave Seafoods
Bobb's Seafood Burger
Brad's Sales & Service
Britex Group
Brocklin Toys
Brooklyn Energy
B. A. Fraser Lumber
C S Design Limited
Canso Tire Limited
Casey Fisheries
Causeway Autobody
Causeway Electrical
Chemcor Atlantic
Cheticamp Motel
Classic Cheesecake
Clearwater Fine Foods
Coastal Van & Storage
Cobi Foods Inc.
Cochran Marine
Cock, Eldon R.
Community Lodge
Copol International
Cosby's Sportsmans Lodge
Coxheath Gold Holdings
Crossley Carpet
Crowell Eel Processors
Data Home Systems
Dave Smith Jr. Auto Sales
Day-Nite Neon Sign
Dennis Haverstock
Dixon's Boatbuilding
Duck Cove Inn
E & M Burgess Enterprises
East Coast Ropes
East Side Auto Sales
Eastcan Geomatics
Eastern Lumber Kiln
Eastern Protein Foods
EBF Manufacturing
ECI Medical Technology
Electric Motor Shop
Elmsdale Lumber Co
Eric's Engine Shop
Fair Isle Motel
Family Fries
Finger Tek Inc.
Fleur de Lis Motel
Forest Insight
Fundy Fiberglass
G J D E Enterprises
G W Reid Well Drilling

Appendix 1 (cont'd)

Nova Scotia Business Development Corporation Client List

Glengarry Motel
Global Forwarding
Golf Street Collision
Grant Brothers Construction
Granville Gates & Son
Gulf Protective Coating
Gulf Trading Limited
H MacPherson's Del
H & H Fisheries
Han Beck Sea Products
Harry Freeman & Son
Hawbolt Industries
Helix Animation Inc
Heritage Stairway
High Liner Foods
Holdright Lumber
Homburg Uni-corp
Homestead Kitchens
HPG Canada Inc.
Huston's The Butcher
Icom Alliance
IMS Gosbee
IMX Divine Ryans
IMX New Waterford Girls
Inland Technologies
Interhabs Ltd.
Island Resources
ITC Canada
J F Fennell Enterprises
James Bagnell's Laundry
John D Steele's Sons Ltd
Julien's Pastry
Julimar Lumber Company
K M I
K P C K May Holdings
Kelly Rock Limited
Ken-O-Mee Log Homes
Ken Norwood Auto
Kenneth & Charlotte Roberts
Kerr Controls
Kerr Heating
L & A Electric
Lanceleve Victorian
Larsen Packers
Laurie's Motel
LeBlanc Printing
Levy's Handcrafts
Lewis Moulding
Little Red Restaurant
Lobster Treat
Loeffler International
Lunenburg Foundry
Lynx Minerals Corp
MacDonald, John A.
Mactara
MAK Investments
Marathon Bakery
Mardelli Publishing
Marilyn and Kenzie Jones
Maritime Greetings
Maritime Tractor Repair
Marshall Hassin's Furniture
Mary Tay Foods
Mentor Networks
Merlin Fish Farms
Mermaid Motel
Minas Basin Pulp and Power
Mitchell's Sharpening
Mosher Limestone
Mountain Gap Inns
Multi Mesh Distributors
Municipality of the County of Kings
M.P. Valley Lumber
Neil Nickerson Fisheries
Neocon
Nova Scotian Crystal
Nova Ski Limited
Novatec Braids Inc
Nu-Air Ventilation
N.W.P. Industries
Ocean Nutrition Canada
Odyssey Cape Breton
Old Orchard Inn
Ole Smokey Towne Trading
Optimax Software
Oxford Frozen Food
Peter Pan Motel
Peterbilt of Nova Scotia

Appendix 1 (cont'd)

Nova Scotia Business Development Corporation Client List

Pharmatech Research
Phase Remediation
Pictou County Sandstone Quarry
Polysteel Inc.
Precision BioLogic
Prestige Incorporated
Pubnico Lake Holdings
Pure Energy Battery
QuantaNova Canada
R F Ironworks
R P Hawboldt Machining
R W Hayman Logging
Rainbow Farms
Reid's Garage & Towing
Reinforced Plastic
Rodmac Enterprises
Rodney Transport
Romatt Custom Door
Royal Print
R. Baker Fisheries
R.J.R. Capital Corporation
R. P. Hawboldt Machining
S. Jachimowicz
Sainte Famille Winery
Sambro Fisheries
Schaffner Enterprises
Schooner Seafoods
Scotia Farm Services
Scotian Gold Co-Op
Seagull Pewter
Seal Island Restaurant
SepraChem Canada
Shaw Wood Industries
Showcase Nova Scotia
Silver Dart Motel
Sobeys Incorporated
Sophia's Place
South River Machining
SP Container
Spa Springs Parks
Spring Value Nurseries
St Ann's Lobster Gallery
Star Products
Stonehouse Motel
St. Peter's Fish Hatchery
Sunrise Stable
Super Clean Steam
Superport Marine
Swedwood Canada Ltd
Sydney Engine
T W Pultrusion
Tara Lobsters Inc.
Tatamagouche Home
Telesis Communications
Telfer & Wilson
The Book Fair Murders
Tibbets Paints
TIM Dealers Services
Tingley Monuments
Total Recycling
Trailsman Motel
Transpec Enterprises
Tri-Star Industries
Two-Tech Forestry
Two Rivers Lumber
Valley House of Carpets
Valley Industries
Van Den Hoek, William
Venture Lighting
Victoria Bridge Holdings
Village Developments
Vintage Mouldings
W A MacLeod & Sons
Walton Bucket Works
Warp Tech Inc.
Wayne Hanley Enterprises
Wearwell Garments
White Point Holdings
White Sails Bakery
William J. Brown
Willow Bend Motel
Windsor West Hants
Yarmouth Area Industrial Commission

Appendix 2

Nova Scotia Business Development Corporation
Financial Assistance Authorized 1999-2000

Client	Amount Authorized	Purpose
Mid Valley Motel	25,000	Investment in renovation
A & L Seafood Limited	609,136	Snow crab processing plant
A & L Seafoods Limited	100,818	Snow crab processing plant
All Up Consulting	155,000	Leasehold and equipment financing
Annapolis Basin Seafoods	100,000	Inventory and receivable financing
Apple Valley Foods	984,750	Construction of pie production facility
Bartlett Plastics	975,000	Fixed-asset expansion
Bluewave Seafoods	200,000	Fixed-asset financing
Brad's Sales & Service	225,000	Working capital replenishment
Britex	757,500	Working capital loan
Capital Candy	88,000	Equipment financing
Classic Cheesecakes	125,000	Working capital financing
Data Home systems	80,000	Share investment
EBF Manufacturing	406,265	Fixed-asset acquisition
Fundy Fibreglass	175,000	Loan for product line expansion
Helix Animation	57,567	Start-up assistance for animation facility
Holdright Lumber	18,500	Fixed-asset financing
Industrial Wiper	80,000	Purchase of building
John's Cove Fisheries	240,000	Acquisition of fixed assets
Lewis Moulding	41,000	Kiln acquisition
Lunenburg County Shipwrights	200,000	Working capital
Lynx Minerals	200,000	Barite mine financing
Mountain Gap Inns	285,000	Upgrade and refinancing
Oceanstone Inn	133,000	Cottage construction
Pharmatech Research Inc	315,802	Purchase of fixed assets
Pharmatech Research Inc	300,000	Purchase of fixed assets
Premium Seafoods	200,000	Fixed-asset acquisition
Prestige Inc	112,497	Equipment financing
R.J.R. Capital	500,000	Loan to support export services
SP Container	300,000	Term loan for vessel upgrade
Superport Marine Services	260,000	Facility upgrade
S. Jachimowicz	530,000	Upgrade of hotel facilities
The Book Fair Murders	175,000	Investment in film production
Valley Vista Golf Centre	925,000	Golf course development
Warp Tech	75,000	Equipment purchase
Wedgeport Seafoods	144,000	Equipment purchase
White Point Holdings	100,000	Facility expansion